## **USING THE LEGACY PAY STATEMENT TO UNDERSTAND YOUR W2**

This quick reference guide will help employees transitioning to the new payroll system understand their W2, Wage and Tax Statements from HIP.

# 1. Why are my gross earnings from my 12/20 pay statement and my gross federal taxable wages on my W2 different?

Your Federal Taxable Wages on your W2 is <u>not</u> your annual salary.

- YTD Gross Earnings on your 12/20 pay statement = How much you earned in 2018.
- Federal Taxable Wages on your W2 = How much of your earnings you were taxed on in 2018.

#### To break this down...

Your Federal Taxable Wages is different than your YTD Gross Earnings because you received pre-tax benefits such as medical coverage, transportation benefits, deferred compensation benefits, or other types of pre-tax State of Hawaii benefit programs. If you subtract the amounts of those pre-tax benefits from your YTD Gross Earnings, you will get the amount of your Federal Taxable Wages.

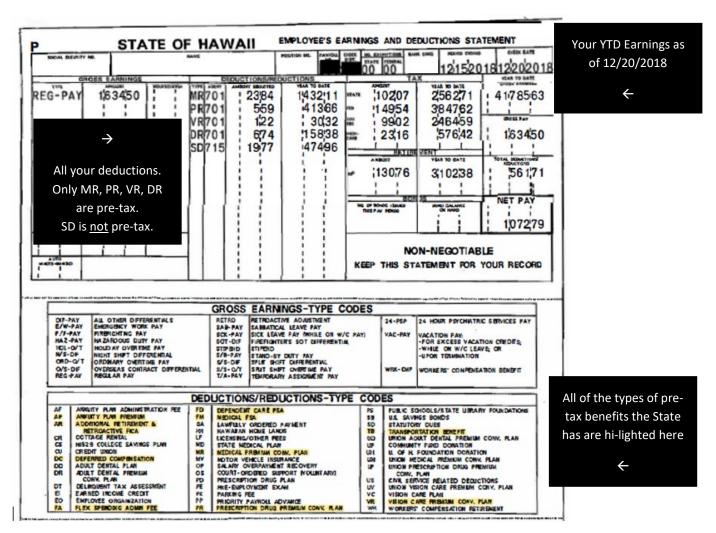
### ~Example~

Your year-to-date (YTD) Gross Earnings found on your 12/20/18 pay statement is \$41,785.63, and your W2 has an amount of \$36,648.78 in Box 1. That's a difference of \$5,136.85. Why do they not match?

To understand the <u>difference</u>, do the following:

Use year-to-date (YTD) gross earnings from your 12/20/18 paycheck and subtract any pre-tax deductions such as MR (Medical Premium Conv Plan), PR (Prescription Drug Premium Conv Plan), VR (Vision Care Premium Conv Plan), DR (Adult Dental Premium Conv Plan), as well as any retirement deductions that are also pre-tax.

See the example on the following page.



#### **CALCULATIONS**

**\$41,785.63** – YTD Gross Earnings on 12/20/18

1,432.11 - MR

413.66 - PR

30.32 - VR

158.38 - DR

\$39,751.16 – W2 Taxable Wages for Social Security, Box 3 and Medicare, Box 5 (these amounts may differ between employees)

3,102.38 – Retirement Contributions

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\$36,648.78 - W2 Taxable Wages for Federal Tax purposes, Box 1 Box 1. 7 Social security tips Your Taxable Wages Form W-2 Wage and Tax Statement 5079 36648.78 8 Allocated tips for Federal Tax STATE OF HAWAII 39751.16 2464.57 9 Verification code PO BOX 119 **Purposes** 576.39 39751.16 HONOLULU HI 96810-1019 10 Dependent care benefit DD 12b 6329.92 e Employee's name, address, and ZIP code Third-part 14 Other × 12c **b** Employer ide 99-6001081 12d a Employee's social security number 20 Locality name WH-013-438-5664-01 39751.16 2562.71

Dept. of the Treasury - IRS

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# 2. Why are the Social Security and Medicare taxes withheld on my 12/20 pay statement different from the Social Security and Medicare taxes withheld on my W2?

You may see *a few cents* difference between the amounts on your 12/20 pay statement and the amounts on your W2. The legacy payroll system calculated taxes on a per pay period basis rounding to the nearest penny. With the new payroll system, we calculate using an annualization method that ensures all employees meet the necessary tax requirements each calendar year. As we transitioned from the legacy system to HIP, the new annualization method was applied for employees. This means that some employees may see slight differences in their social security tax withheld on the W2 due to this penny rounding method from the legacy payroll system. Now that all employees are in the new payroll system and the annualization method is in place, employees will always have taxes annualized each pay period.

How the calculations on your W2 work: The dollar amount for the <u>Social Security tax withheld</u> in Box 4 is equal to 6.2% of your social security wages found in Box 3. The dollar amount for the <u>Medicare tax</u> <u>withheld</u> in Box 6 is equal to 1.45% of your Medicare Wages and Tips found in Box 5.